INTEGRATION IN MARKETING

As we look around us today in the wide field of marketing, we see a most confused mass of struggling marketing methods. Any student of the marketing problem will agree that, at the present time, a most unfortunate and wasteful amount of duplication and friction exists in marketing, partly on account of this chaotic condition. The old, smooth channel of distribution from manufacturer to wholesaler, to retailer, has been cut into and diverted by chain stores, retailers' buying exchanges, and "direct marketing" by manufacturers, to say nothing of the "mail-order house," and a dozen variations of these main types. Under existing conditions, it is impossible to say with certainty for all industries just what is the best type of marketing organization from the standpoint of public welfare. It will be helpful, however, to analyze some of the forces now at work with the purpose of appraising the apparent trend toward integration in marketing.

Certainly one must be impressed by the fact that integration in marketing has made some progress. Under existing conditions, there appears to be a tendency in certain industries for such marketing to increase. It behooves one, therefore, to inquire what are the grounds for this tendency and whether they are indicative of public benefit. These grounds I will discuss under two heads: first, the economic forces, and second, the unfair or uneconomic methods which sometimes reïnforce the more fundamental tendencies.

The method, therefore, will be to analyze all considerable forces tending toward integrated marketing, and from the nature of these forces to judge whether the result is good for the public. The field covered will be confined practically to the marketing of food products from manufacturer to consumer, in which field the wholesale grocer is one of the chief agencies. It is believed, however, that much of the analysis and many of the conclusions will apply to the marketing of other products.

By "integration in marketing" is meant combination among the separate marketing stages (*e.g.*, wholesaling and retailing) or any combination of marketing with manufacturing or extractive industry. There is no necessary relation between such integration and large-scale marketing, but in practice integration is so often combined with large-scale marketing that frequent reference will be made to the latter, and a section is devoted to a discussion of the advantages of large-scale marketing of groceries.

Economic forces tending to integration in marketing.

1. When a commodity is distributed among very large purchasers, either those who consume it as a raw material, or who distribute it at retail, there is a tendency both to large-scale and to integrated marketing. For example, the marketing organization for refined copper is highly centralized and integrated, and this is probably necessary and desirable. Much the same is true of steel. Also, the growth of department stores tends toward integration in marketing as they have the well-known tendency to purchase direct from the manufacturer or even to acquire their own manufacturing plants. Conversely, when the consumers or final distributors are small and scattered, there is less tendency to integration and such integration as exists under these conditions is less likely to be based on sound economic grounds.

2. When the manufacturing is highly concentrated among a few large producers there is not only large-scale marketing but also there appears to be some tendency toward integration in marketing. When the manufacturers are few, there is less need of independent brokers and wholesalers to combine and handle their outputs; and when they are large and financially powerful, they are able to provide the capital and skill required for successful marketing. This tendency may be due to the possession of large surplus earnings which are available for use in extending the position held by the company in the industry, especially when this situation is accompanied by a desire of the company to insure a stable outlet for its product or to maintain prices to the consumer. The tendency may also arise from, or be increased by, the need of introducing some new and expensive method of marketing which the established marketing agencies are slow to adopt. All of these conditions may be found in the expansion of the large meat packers and oil refiners into the marketing field.

An interesting phase of this same point lies in the fact that the tendency to produce proprietary goods, or trade-marked specialties, by individualizing products of manufacturers, brings about a type of centralization; for then only one manufacturer produces the one brand of corn flakes or toothpaste.

It is noted that the tendency to centralization of marketing, insofar as based upon centralized manufacturing, may increase the field of monopoly, since one or more manufacturers having monopoly power, by acquiring the wholesale distribution of this

product may eliminate the competition which exists among independent wholesalers and increase the average spread between the f.o.b. factory price and the price to the retailer. Moreover, the acquisition may be accompanied by economic waste through the encouragement of overgrown manufacturing units and excessive advertising campaigns (*e.g.*, meat packers).

3. The marketing of goods which are heavily, though not excessively, advertised tends to become integrated. Many advertising campaigns of the present day are highly expensive and mean a great overhead which must be compensated by a large volume of sales. The manufacturer who is sinking great sums in advertising insists that the commodity in question must be pushed by the distributor, as over against other commodities, and this he sometimes feels no one who is engaged in distributing numerous competing lines can do. He is therefore prone to take a hand himself, and even to "go direct" to the retailer or consumer. At least he puts his "specialty" salesmen, or "detail men" in the field and thus drives the entering wedge for direct marketing. He has expended hundreds-of-thousands or even millions in advertising, and he desires to secure all the profit that there may be on his goods as sold to the consumer. He desires to prevent price-cutting, and, in short, he seeks to keep his hands upon his goods until they are finally disposed of.

4. Closely connected with the advertising factor is the multiplication of specialties. Numerous new trade-marked articles and branded goods are constantly being put upon the market, and as the new lines come out each requires a special advertising campaign and special pushing with the trade in order to get its place in the already long list of similar goods, which have a different colored label or a slight difference in the first syllable of the name. The jobber or retailer may not see the need for pushing the new brand of underwear, or canned peaches, and therefore the manufacturer goes "direct," and integration in marketing results.

5. Other things being equal, goods which have a high specific value are more likely to be handled by an integrated marketing organization, for here the freight cuts little figure, and the economies which arise from distributing by carload to local jobbing centers are less important. Illustrations may be found in mail-order houses and "direct selling" by manufacturers.

6. Some commodities in their marketing require special service to the consumer, as, for example, such machinery as typewriters and phonographs. These goods have to be demonstrated and kept in repair, and here the interest of the manufacturer is such that he will probably sooner or later take over the marketing of his product. This may result in a really better service to consumers, and if so is a public benefit.

7. The development of aggregations of interrelated lines of goods has been a factor making for both large-scale and integrated marketing. This is illustrated by the larger meat packers, the International Harvester Company, sporting goods stores, department stores, and others. Either because of (a) conditions in production such as integration or utilization of by-products, or because of (b) a grouping of interrelated wants by consumers, a tendency exists in such cases toward unification in the marketing of groups of products. Often this gives rise to large-scale marketing, and if, as is sometimes the case, the various products have been separately marketed through independent wholesale and retail agencies, a centralization or integration also results. This may be because wholesalers are organized to handle the various products separately. Of course, such a movement may mean real economy or it may represent an application of mere acquisitive power and "full line forcing." The development of marketing by the large meat packers illustrates all these aspects. They have combined hundreds of products, both by-products and others, partly because of joint production, partly because of economies found in large volume of manufacture and transportation, and partly because of a desire among consumers to buy complementary or interrelated goods from a single source, *e.g.*, groceries, butter, eggs, and meats. It is interesting to note that this has been an important matter in foreign trade, and one of the chief arguments for export combinations lies in their ability to supply a full line of goods and services.

8. Economies within the marketing process may sometimes be gained by large-scale, integrated methods, and the possibility of such economies constitutes a normal economic force making for the spread of such methods. These economies appear in the technique of accounting, salesmanship, credits, and collections, etc. They have been partly responsible for the growth of "chain stores" and the recent formation of such marketing "trusts" as the United Retail Stores Corporation. This organization is a com-

bination of "chains" of retail stores (candy, cigars, groceries, dry goods, etc.), a mail-order house, and factories, embracing the United Cigar Stores Company and Montgomery Ward and Co.

Most of the foregoing factors or forces are not socially harmful in their results. Some are economically good, as a general rule (6, 7, 8); others are dangerous at times (2, 4, 7); while others are a matter of indifference (1, 3, 5). There are, however, a number of methods or practices in use in the marketing of food products which are of more doubtful desirability.

Unfair or uneconomic methods tending to integration in marketing.

Some of the more important of such methods or practices now common in marketing which tend to integration are as follows:

1. *Excessive advertising.* Surely in these days of paper shortage, a line can be drawn between reasonable advertising, which has an economic justification and is in the public interest, and such advertising as is excessive and uneconomic—is, in short, wasteful and unjust to the public. Surely no good interest is served when a concern takes a double page in the *Saturday Evening Post,* and in two colors displays the picture of a plate of ham and eggs. It is hard for the thoughtful consumer to restrain himself when confronting such waste. Suffice it to say that this sort of advertising is purely acquisitive; and, as already indicated, it is one of the chief factors tending toward integrated marketing.

2. *The discriminating quantity discount, and other "inside prices."* Aside from advertising, one of the strong factors tending toward integration and large-scale marketing, is the practice of making various special reductions in price to favored buyers. This is perhaps the most disturbing element in the marketing structure, and—again aside from matters connected with advertising—is, in one form or another, the chief cause of friction among manufacturers, wholesalers, and retailers today. Retailers hear that some wholesaler or manufacturer has been making special prices to the large buyer, perhaps a chain store system. They get together and form a coöperative buying "exchange." The jobber learns that the manufacturer is giving the jobber's discount to some large retail concern or perhaps a chain of stores, and endeavors to fight fire with fire. Of course the result is discrimination; lower prices are made to particular buyers, and the seller has to make his profit from other buyers who are not thus

favored, which but increases the discrimination. Unreasonable "cash discounts" are given, commissions are "split," and "free deals" put on, with the result that confusion and friction reign; and, out of it all, the big retail buyer tends to emerge along with the big and financially powerful manufacturer. The whole process looks toward monopoly.

Obviously, too, it is not one that can be generalized; for if quantity discounts are given to everyone they lose their "pulling power." A sound test of the desirability of such things lies in the question: "Can everybody do it?" The quantity-discount system, as at present used, fails to meet this test.

Of course, the quantity discount may be made on sound economic grounds when and to the extent that purchasing in large quantities means a service rendered and a saving to the seller. No harm comes from this, and what has just been said does not apply to it.

It will be noted that the large buyer ordinarily has to have larger storage, etc., to handle his larger purchases, thus increasing his capital or expense, and consequently he perhaps does not receive any larger net profit on investment than the smaller buyer. More than this, he generally depends considerably for apparent reduction in prices upon a reduction in service given, he cuts out the service rendered by the wholesaler's salesmen and the credit and delivery service of the retailer.

Particularly aggravating to the jobber, and destructive of system in marketing, is the practice among some manufacturers of giving the regular jobber's discount—say 10 per cent—to buying organizations which do not give the service that the jobber does.[1] This is virtually an "inside price." We find this a factor in the growth of chain stores and retailers' buying exchanges.

3. *Specialty salesmen and "drop shipments."* The use of "specialty men" by manufacturers, especially if accompanied by the practice of making so-called "drop shipments," *i.e.*, shipments made by manufacturers direct to retailers, but billed through wholesalers, probably is to be regarded as a factor tending toward integration in marketing. The manufacturer who sends out his own salesmen, if they take orders, is on the way to "direct market-

[1] The jobber maintains a force of salesmen who render a valuable service especially valuable to the manufacturer, and assume important credit functions.

ing" even though the goods may more or less nominally pass through the hands of the jobber.

4. *Full-line forcing.* As already observed the production of numerous more or less related lines of products tends toward integration in marketing. It may lead to the practice of "full-line forcing." The manufacturer who produces and advertises a list of commodities naturally desires to have the distributor handle his whole line of products. He is not satisfied with a distributive mechanism which perhaps pushes his canned fruit but not his package coffee. Regardless of economy, he therefore tends toward the establishment of a more or less centralized marketing organization which will handle his whole line.

5. *The manufacturer's guarantee against decline in price.* It is the practice of manufacturers of some grocery products, such as canned milk and soap, to guarantee compensation to the wholesaler for any decline in price during a period following a purchase. In the first place, only the larger and financially powerful manufacturers can afford to take this risk, and the guarantee has been used as a sort of bribe to get trade away from weaker competitors. In the second place, the guarantee amounts to an assumption by the manufacturer of a part of the wholesaler's proper risk, with the result that the latter's independence is decreased. It amounts to taking away one of the normal functions of the wholesaler, and tends to reduce him to the status of manufacturer's agent. To be sure, many jobbers desire this guarantee, but it is doubtful if they realize the dangerous tendency of the practice.[2] Finally the manufacturers who guarantee prices commonly exercise a control over the price of their products which may increase monopoly if such power exists.

6. *Maintenance of resale price.* The practice of manufacturers refusing to sell to wholesalers who do not maintain a resale price fixed by them, is to be condemned on grounds of public policy, but here we are concerned only with its effect upon concentration in marketing. Like the guarantee against decline, it causes some tendency toward integration by diminishing the wholesaler's independence, as it virtually makes him a mere manufacturer's agent for the commodity concerned. The practice also

[2] I believe they are generally the smaller or weaker concerns.

works indirectly by encouraging excessive advertising and the multiplication of specialties.[3]

7. *Inequality in margins, and "leaders."* In closing this list, perhaps I should mention one factor which may or may not be unfair and uneconomic. This is the inequality in margins of profit which exists in the various items handled by any wholesaler or retailer. For instance, take the well-known case of sugar, which is, as a rule, handled without net profit by the grocery trade. In most branches of distribution some products show a wide margin of profit, while others show small margins, and still others a loss. This is on the whole not a healthful condition, and its connection with the movement toward integration or large-scale marketing is shown by the fact that this inequality appears to be increased by the operation of chain stores, department stores, mail-order houses, etc. Such distributive agencies depend largely upon "leaders." They depend to a considerable extent upon inside prices, on quantity discounts, and the price-cutting tactics which usually accompany these things. Thus we see that the inequality in margins referred to is closely connected with unfair or uneconomic methods. In the long run, the public is not benefited.

Summary criticism.

The whole list of unfair or uneconomic methods which tend toward integration may all be summed up under the head of discrimination. Special favors are extended or special services required, and one group of purchasers is benefited at the expense of another, with the result that the favored ones survive. The methods cannot be generalized. They are acquisitive. They are not methods which result in public benefit.

More than this, of the entire list of forces, tendencies, or methods thus far referred to, few seem to show any net advantage *to the public.* This is true, both from the point of view of economy in marketing, and from the point of view of the general desirability of the tendencies themselves. The integrated handling of such products as copper appears to be economical, and the large retail organizations like the department stores have found a permanent place in the normal marketing system. Integration, as a means of securing the introduction of expensive but economical

[3] See discussion in *Proceedings of the American Economic Association* (1915), where the writer enlarges upon these points.

marketing methods, may be beneficial. Also the large manufacturing establishment and centralized production in manufacturing are desirable up to a certain extent, depending upon the location of the point beyond which large scale becomes monopoly, or the wastes of oversize begin to counter-balance the advantages of large-scale methods. It is doubtful if the largeness of the demand of consumers, or of the output of manufacturers goes any great way toward explaining such tendencies to integrated or large-scale marketing as are now under discussion. Indeed, it was with the growth of manufacturing economy after the industrial revolution that the regular chain of distributors, including wholesalers and retailers, developed, and most manufacturers, especially of staple commodities, find it profitable to market their products in the regular way. Probably over 90 per cent of the volume of distribution of food products goes through the "regular" channel.

As to the advertising factor, enough has been said already to indicate the reasons why we must conclude that advertising is sometimes overdone, and that it and the tendency toward integrated marketing which it causes, represent economic waste. The economies in marketing which are attributed to excessive advertising, mostly simmer down to the argument that volume of sales is increased, thus reducing the unit cost of distribution. When it is remembered, however, that this increase in volume is ordinarily at the expense of greatly increased waste of competition, it would seem that the alleged economy in marketing is not one which results in benefit to the public. It may be doubted if there is any tendency to pass along to the consumer a saving in marketing expense which might come from advertising, even if one existed.

Certainly the multiplication of new lines which is so potent in causing manufacturers to go "direct," is overdone from the point of view of the public, and instead of leading to economy in marketing, the result is a multiplication of marketing agencies which is wasteful and increases the total expense of getting the total supply of a given kind of commodity on the market.

The specialties of high specific value which are sold over wide territories by centralized marketing methods, are not put in the consumer's hands any more economically thereby, since the reason for centralization in their marketing lies in their relatively high price and the wide margin of profit that is made on them. This is not a matter of economy but a matter of profit for the distributor.

It is probably true that integrated marketing of certain products which require special demonstration and service, is necessary and desirable. It will be observed, however, that this does not necessarily mean large-scale marketing.

The use of specialty salesmen by manufacturers is, from an economic point of view, partly good and partly bad. Such salesmen sometimes render a real service in demonstrating goods; but often they represent a duplication of effort which is accentuated when the product concerned already has "100 per cent distribution," that is, one which every retailer knows and has to carry to meet consumer's demands. In large measure the expense of such salesmen is to be regarded from the public standpoint as excessive advertising and is purely acquisitive.

Whether the great marketing "chains" mean a real permanent economy, is still an open question. The competition which they have brought to bear upon the regular marketing agencies is having an important effect in forcing the adoption of more efficient methods by those agencies, as, for example, in causing retail grocery stores to offer a 5 per cent discount to customers who buy on a "cash and carry" basis, and in making the wholesaler more attentive to the interests of the regular retailer. Also the new organizations are to some extent educating consumers to use more economical buying methods. But when these results are accomplished, there will remain such questions as: Can remote corporate management be as efficient as close individual initiative in marketing? Are the wastes of competition not increased by duplication of stores and advertising? Is there not danger of monopoly? It remains to be seen how much of the progress of the new organizations is due to merely acquisitive power.

Analysis of certain concrete cases of integrated marketing.

What has been said thus far concerns conditions associated with integrated marketing, rather than the economy within the marketing process. Let us pass to the more direct argument which will take up economy within the marketing operation itself, aside from any question of the character of the commodity and manufacturing technique, etc. Let us take things as they are, without regard to cause, tendencies, or the question of what things ought to be.

Certain types of direct selling by manufacturers or growers may be briefly considered. For example, there are certain manu-

facturers who differ from the majority in not using the services of the broker and wholesaler, and in going direct to the retailer or even to the consumer in some cases. In the food distributing industry, one thinks of Heinz and the National Biscuit Company. Such concerns produce commodities of high specific value; they handle many lines, more or less related; and are heavy advertisers. Their motives are threefold: (1) They feel that they can push their particular trade-marked specialties better than middlemen who handle competing goods, and can do better work in the way of creating a demand. (2) They feel that the jobber or the retailer is too unwilling to handle, or at least to push, a complete line of their products. (3) They desire to prevent price-cutting. Closely related to all three of these points, and to the whole situation, is their desire to reap the full benefit of advertising. Quantity discounts and full-line-forcing tactics have been used. None of these motives or factors in the situation represents a benefit to the public. It is not probable that this class of direct distributors feel that they do their distributing any more cheaply than they could through the so-called regular channel. However that may be, the fact remains that they have to do the same work that the regular middle-man would do for them, and I am informed that all the products of the Heinz Company are handled through branch houses before getting to the retailer. Above all, their goods reach the consumer no cheaper than similar goods which flow through the regular channels.

A similar instance of direct marketing, but which has other elements is illustrated by the larger meat packers in their distribution of grocery products—now abandoned under the terms of a consent decree. Here, in addition to the usual methods of the specialty manufacturer, there was an exaggeration of the advertising element, and a large use of the discriminatory, "inside-price" methods, and of "full-line forcing." The "free deal" was abused and the appeal to the housewife to keep an "Oval Label Shelf," etc., was backed by pressure to induce the retailer to carry not only canned meats and lard, but also corn flakes and pancake flour of the same brand. Discriminations in transportation also entered into the situation; and there has been what may be called "unfair costing." Whenever a large line of goods is put out by a single concern, especially when there is an element of joint costs, there is likely to be a tendency to cut prices on some

particular product which it may be desired to push, and to justify the cut by charging a larger proportion of the total cost to some other product.

An examination of the packers' marketing organization will show that they duplicate, step by step, exactly the links in the chain which characterize the "regular" distributive system. The goods are shipped in carloads to branch houses, which correspond to the wholesalers' warehouses, and from there are distributed in less than carload lots to retailers in the same way that the wholesaler operates. In the place of the wholesaler himself, we have the branch-house manager, who directs the operation of a force of salesmen in the same way that the independent jobber does. It would seem, therefore, that so far as the actual cost of distribution is concerned, the two would be similar. It will be observed, however, that there are several points at which the packers' method tends to be less economical than the regular method. In the first place, there is the dependence upon the hired man, as over against the vital, personal interest of the owner. In the second place, there is the enormous overhead attendant upon the attempt to supervise efficiently a worldwide organization, not merely of selling, but of manufacturing as well. A part of this overhead consists of inflated advertising expenditure which is largely "institutional" in character and cannot be defended either on the ground of economy or of educating the public to the use of new products. It may be argued that the large scale on which the packer does business enables him to reduce his overhead expenses per unit, but this is getting the cart before the horse. The packer's overhead expense has to be justified first. It seems clear that the losses attending such integration in marketing must offset much of the undoubted economy in manufacturing, and it seems that the real reason for the integration lies in the lust for power and prestige coupled with larger *total* profits. That the public could get its meat as cheaply or cheaper with less integration is indicated by the fact that a number of smaller packers (including Cudahy), who do not practice much if any integration in marketing, thrive, and the further fact that the big packers have to maintain an elaborate system of branch house distribution.

This leads finally to the point that such organizations as the packers' illustrate the danger of monopoly which arises in connection with the tendency to centralized marketing.

Certain fruitgrowers' associations illustrate another type of integrated marketing, notably the California Fruit Growers' Exchange. It will be noted that these organizations are admitted to be chiefly and primarily for the benefit of the growers, and a study of the reasons for their existence indicates this to be true. Of course this does not mean that such organizations are undesirable; the only point is that they aim to secure for the growers a part of the profits which commission men and others had formerly secured. Moreover, it will be remembered that the California Fruit Growers' Exchange sells through the regular channel of jobber and retailer. The advantages claimed for the exchange are a better grading of the product, better information as to markets, and a lower freight charge obtained through the pooling of their product. These things are all desirable and beneficial to the grower; they are not harmful to the public. Indeed, there is probably a balance in favor of such organizations, although their net effect upon the price of the product may be questioned, and more than questioned in the case of such concerns as the "pools" of raisins, lima beans, and nuts which have shown monopolistic tendencies.

As to the mail-order house, I would simply call attention to the fact that it sells chiefly in small towns where the stores do not carry varied and up-to-date stocks. Here the mystery of the thing makes its strongest appeal and the methods of the local retailers are unsatisfactory. The transportation cost is such that the regular channel is not threatened seriously from this direction. In any case, these houses are forced to operate branch houses and break and reässemble orders, thus performing the wholesaler's and retailer's functions. According to the best information I have, the expenses of the mail-order house are approximately 22 per cent of the sales, which is very similar to the combined expenses of the wholesale and retail grocer (6.5 per cent plus 16 per cent, based on retail sales).

Direct buying by retailers' exchanges and chain stores is an important factor in the existing tendency toward integrated marketing of groceries. In this type of marketing organization, the functions of at least the wholesaler and the retailer are combined. The chief motive back of such organizations is either the desire to secure inside prices on quantity purchases or to push some advertised branded commodity. Both motives are connected with

acquisitive gain for some particular business concern, rather than with a public benefit. Other factors in the situation are economy in advertising and in credits and collections, and the adoption of better selling methods. It is undoubtedly true that the chain store systems, directed from above by able organizations, are highly efficient in handling particular business problems, notably those of credits and salesmanship. Nevertheless, it must be remembered that such organizations merely take over the jobber's job: they do not get rid of it. They combine the retailer's troubles with the costs and risks of the wholesaler. Furthermore, they have to place dependence upon numerous hired managers, and it may be doubted if they can overcome this disadvantage, no matter how cleverly systems of profit-sharing, bonuses, etc., are utilized. Again, regarded as retailers, they generally have no choice in the line of commodities sold, and in confining themselves to pushing any given lines, they lose the advantage of bargaining among a wide range of producers. They are likely to get into a rut. Finally, as wholesalers their field may be so limited as to prevent important economies, this being especially true of coöperative buying organizations among retailers. The greatest success among chain-store systems may be anticipated in the case of those which deal in branded, advertised goods, as shoes, cigars, etc. They will undoubtedly force retailers to adopt more economical methods, and perhaps bring about an extension of the so-called "four-square plan" with its differentiation in prices between cash and credit business.

No normal tendency to large scale marketing.

The forces thus far described indicate that in large part the various phases of integrated marketing and direct selling of food products, are not of benefit to the public, and lead to waste and disorganization in marketing machinery. Incidentally the analysis has indicated that many of the forces making for integration and large scale in marketing are not beneficial. The question, however, remains: is there any positive force in the economics of marketing which makes for large-scale organization? We know that in many lines of manufacturing, there are economies to be gained by producing on a larger scale, and if integration is a means of attaining large-scale production it is therefore to that extent desirable. Insofar as most food products are

concerned, such does not appear to be the case. The food products referred to are such as are handled by wholesale grocers, namely those that are not highly perishable and can be transported and stored. With such products the merely mercantile problems of buying, carrying, and selling are decisive. When, however, the technique of the physical problems of handling, reworking, or delivery become decisive, a different answer may be made. For example, in the case of milk it appears that processing, manufacture, and delivery are so important that the large-scale operations are more economical, and perhaps the same may be said of the wholesaling of fresh meats.

In the first place, in marketing most food products, only a small amount of fixed capital is required. The wholesale grocer, or any other distributor who does the work of a wholesale grocer, only requires a warehouse, office furniture and fixtures, and a few trucks, to perform his function. Not only is the expense of these items of investment relatively small as compared with sales but they do not remain "fixed." They vary with the volume of business done. The little wholesale grocer requires only a little warehouse and a single truck. If he grows bigger, he rents a larger warehouse and buys additional trucks.

It follows that the item of "fixed charges" is relatively small in the marketing of food products. Bonds are rarely, if ever issued; the chief item of interest is that paid on loans from banks, which vary with the amount of business done. Much the same may be said of taxes. Advertising is almost negligible.

Management is the dominating factor in the wholesaler's economy. Close attention to numerous details is required. There is little buying of large quantities to be held for speculative gains. The volume of business which will take the entire attention of an ordinary manager is accordingly not one which can be compared with the large-scale operations of a railway system or a steel company. To be sure, an efficient man can handle a bigger wholesale grocery business than can an inefficient one; but the limits are much more narrow than in manufacturing and transportation, and the more efficient man demands a higher salary, *which is a very important percentage of the total expenses.*

It seems that the small dealer has all the advantages as to securing the same rate of profit that the large one has. Ordinarily, in buying by the carload, the jobbers secure as low a price as can

be obtained, barring discrimination. In other words, the carload is the unit, and the little jobber who buys one carload, can buy as cheaply as the big one who buys ten. One chief factor to be considered is the salesman. The operations of the salesman in any given marketing territory appear to be entirely independent of the size of the firm for which he works, or the total volume of sales of that firm. The only doubt here lies in the question as to how many salesmen can be most economically utilized by the given manager. It would seem theoretically that a house which employed a skilled manager, whose time would be entirely taken up with more general questions of policy, and who directed the operations of a group of salesmen, would be more efficient in the sense of having a higher rate of profit, than a very small one, whose manager had to give a part of his time to calling on the trade. Such a house would be very small—probably with annual sales of $500,000 or less. It is true that such extremely small houses thrive, and sometimes grow larger, but this appears to be due generally to the expenditure of an extraordinary amount of effort by the proprietor.

The conclusion is that, in the grocery business, within a very wide range, a similar rate of expense and similar rate of profit are secured by both big and little concerns. It is to be emphasized that what is referred to here is the *rate* of profit. Of course, up to a certain point, the total profit increases with the size of the concern, but, while that may make the little concern desire to become big, it does not have anything to do with the question of efficiency or with the question of prices to the public.

If one wants concrete evidence of the truth of the foregoing reasoning, one only has to look around to see it on all sides. Perhaps 50 per cent of the meat packers' business is marketing, and here we find that the relatively small and simple organization appears to make as good profits as the large and complex one. Also, within the grocery business, it may easily be proved that the relatively small establishments make as high a rate of profit as the larger ones.

Here again, therefore, we arrive at the conclusion that such tendency toward centralized and large-scale marketing as now exists, must be based upon forces and conditions which arise out of a struggle for increased volume of sales among manufacturers, and does not represent increased economy or profit to the public.

General conclusion.

The present disturbed condition of the marketing world is the result of a challenge to the old established methods, issued by new methods born of recent and to some extent temporary conditions. These conditions are the growth of integration and combinations among manufacturers, and the large profits accruing to marketing agencies on account of the rise in prices caused by inflation and scarcity. Easy credit has played a part. The result is a struggle for survival among numerous agencies.

It may be concluded from the foregoing analysis (1) that no prima facie case for integration in marketing exists and (2) that the marketing of such products as groceries is not subject to the law of increasing returns.

In the foregoing discussion, the aim has been so to analyze the forces now tending toward integration in marketing food products that a fundamental appraisal may be made. Perhaps as fundamental as any is the conclusion that most of the economic arguments in favor of integration in this field cannot be generalized. For example, the advantages claimed by those manufacturers who go direct to the retail trade, if logically carried out, would require going to the consumer; but for every manufacturer to go direct to consumers would be extremely wasteful, if not impossible (unless we assume monopoly and division of territory). From the social point of view, the various alleged advantages cancel out. Advertising, if excessive, is like the matter of armaments among nations: if every one were to engage in the mad struggle to cover a greater area of paper with pictures and eulogiums of his product we would be left just about where we were when the struggle began, except that the consumer would have paid the bill. If every one gets an "inside price," no one has an advantage in getting it.

While most of the benefits claimed for it are acquisitive, it seems fair to conclude that within limits integration in the marketing of certain commodities may also be socially desirable. Such commodities appear to be those which have one or more of these characteristics: (1) heavy, but not excessive, advertising expense, (2) concentrated production or consumption, (3) requiring special "service," (4) aggregated in interrelated groups, (5) subject to highly standardized marketing technique. When a product is a "specialty," and advertising is the controlling factor, the normal tendency is toward integrated marketing, though not necessarily

on a large scale. The question of public benefit is here closely connected with the question whether the advertising is excessive. If its expense is in excess of the utility added to the product, it is to be condemned, along with the centralization in marketing which results. When these or similar characteristics are not found it is doubtful if such integration in marketing as exists is socially desirable.

A considerable part of the present trend toward integration in marketing food products from manufacturer to consumer is caused by the use of unfair or uneconomic methods, which have the immediate effect of increasing the wastes of competition and of tending to build up monopoly.

As none of the important economies which have caused the development of large-scale production in manufacturing appear to apply with any considerable force to wholesale marketing of such products as groceries, it may be concluded that in this case there is no normal tendency toward large-scale marketing, so far as economic forces are concerned. An obvious corollary is that those cases of large-scale dealing at wholesale in groceries which now exist are not based upon economic efficiency.

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